

## Message Text

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TO AMCONSUL HONG KONG PRIORITY

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GENEVA FOR PHELAN

E.O. 11652: N/A

TAGS: ETRD, HK

SUBJECT: CONSULTATIONS ON BILATERAL TEXTILE AGREEMENT

SUMMARY: USG TEXTILE OFFICIALS HELD TALKS ON JUNE 21-22  
WITH PETER TSAO, DEPUTY DIRECTOR, DEPARTMENT OF COMMERCE  
AND INDUSTRY, AND ALEC HERMANN, COUNSELOR FOR HONG KONG  
COMMERCIAL AFFAIRS, BRITISH EMBASSY, CONCERNING US/HONG KONG  
BILATERAL TEXTILE AGREEMENT. DISCUSSIONS, WHICH CONCERNED  
POSSIBLE ADDITIONAL QUOTA AVAILABILITY FOR JULY-SEPTEMBER  
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PERIOD IN EXCHANGE FOR EXTENSION OF CURRENT AGREEMENT  
BEYOND DECEMBER, 1977 DID NOT RESULT IN ANY AGREEMENT. WHILE  
TALKS ENDED ON A FRIENDLY BASIS, WE ANTICIPATE HKG WILL BE  
UNHAPPY WITH THE UNPRODUCTIVE VISIT, AND MAY RAISE

ISSUE WITH CONSULATE OFFICIALS.END SUMMARY.

1. U.S. TEAM HAD EARLIER AGREED TO MEET WITH TSAO TO DISCUSS FURTHER HIS TWO PROPOSALS FOR MEASURES WHICH WOULD ALLOW HONG KONG ADDITIONAL SHIPPING ROOM IN JULY - SEPTEMBER PERIOD IN CATEGORIES IN WHICH QUOTAS ARE NOW NEARLY FULL. WE HAD ASKED HKG TO DEVELOP POSITION ON POSSIBLE MEASURES WHICH U.S. AND HKG MIGHT TAKE TO MAINTAIN STABILITY IN OUR TEXTILE TRADING RELATIONSHIP AFTER THE EXPIRATION OF THE CURRENT AGREEMENT AND THE CURRENT MFA.

2. SMITH, HEAD U.S. DEL., INFORMED TSAO AT BEGINNING CONSULTATIONS THAT U.S. HAD SERIOUS PROBLEMS WITH HIS PROPOSAL TO EXTEND CURRENT AGREEMENT YEAR THROUGH DECEMBER, 1976, WHICH WOULD AT LEAST THEORETICALLY AND IN ALL LIKELIHOOD ACTUALLY RESULT IN AN ADDITIONAL 25 PERCENT OF THE ANNUAL QUOTA BEING SHIPPED FROM HONG KONG IN JULY-SEPTEMBER PERIOD. HE EXPLAINED THAT OUR INDUSTRY WAS CONCERNED ABOUT THE IMPACT OF CONCENTRATED SHIPMENTS IN SENSITIVE CATEGORIES DURING THIS PERIOD, ESPECIALLY SINCE U.S. RETAIL SALES HAD SLIPPED IN THE LAST SEVERAL WEEKS REFLECTING A SOFTENING TREND IN U.S. TEXTILES AND APPAREL. HE INDICATED THAT U.S. WAS PREPARED TO DISCUSS TSAO'S OTHER PROPOSAL OF AN ADDITIONAL 4 PERCENT CARRY FORWARD IN SELECTED CATEGORIES FOR CURRENT AGREEMENT YEAR IF HKG WOULD DISCUSS EXTENSION OF BILATERAL AGREEMENT FOR ONE YEAR TO SEPTEMBER 30, 1978.

3. TSAO RESPONDED THAT HE HAD UNDERSTOOD 4 PERCENT CARRY FORWARD PROPOSAL TO BE DEAD, AND THAT HE WOULD NOT HAVE COME TO WASHINGTON TO NEGOTIATE FOR SUCH A QUOTE SMALL UNQUOTE CONCESSION. HE INDICATED THAT HE WAS PREPARED TO DISCUSS ENSURING STABILITY IN TEXTILE RELATIONSHIP IN EXCHANGE FOR MEANINGFUL CONCESSIONS BY U.S., EVEN THOUGH ANYTHING EXTENDED BEYOND EXPIRATION OF MFA WOULD BE DIFFICULT FOR HKG, AS IT HAD NOT YET FORMULATED ITS POSITION ON MFA RENEWAL. HE TERMED HIS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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4 PERCENT ADDITIONAL CARRY FORWARD "NEBULOUS" AND INDICATED THAT, WHILE OF COURSE HKG WOULD BE PLEASED TO RECEIVE ADDITIONAL CARRY FORWARD AS A "GIFT", IT WOULD NOT BE PREPARED TO MAKE ANY CONCESSION IN EXCHANGE.

4. TSAO ALSO NOTED THAT THERE WAS A TIME CONSTRAINT ON HKG'S INTEREST IN ANY CONCESSION RELATED TO INCREASED QUOTA AVAILABILITY FOR REMAINDER OF CURRENT AGREEMENT YEAR. HE INDICATED THAT QUOTAS IN MOST SENSITIVE CATEGORIES WOULD BE EXHAUSTED BY END OF JUNE, AND THAT AFTER FIRST OF JULY, PRODUCTION CAUSED BY LACK OF QUOTA ROOM WOULD HAVE BEGUN TO OCCUR. HE

SAID THAT HE HOPED A SOLUTION TO PROBLEMS COULD BE FOUND IN SPIRIT OF MFA, WHICH CHARGES MEMBER STATES WITH AVOIDING MARKET DISRUPTION BOTH FOR IMPORTING AND EXPORTING COUNTRIES. FYI WE DISPUTE IMPLICATION CURRENT BILATERAL IS DISRUPTIVE TO HKG. FACT IS HKG DID NOT SPACE OUT LICENSES EVENLY ENOUGH. END FYI.

5. SMITH NOTED THAT U.S. WAS NOT IN HABIT OF GIVING -GIFTS"IN ITS TEXTILE PROGRAMS AND REITERATED OUR PROBLEMS WITH IMPACT OF HEAVY SHIPMENTS THIS SUMMER IN SENSITIVE CATEGORIES. HOWEVER, HE SAID U.S. WILLING TO WORK FURTHER TO SEEK SOLUTION TO PROBLEMS. HE ASKED IF HKG COULD CONSIDER A SPACING REQUIREMENT IF CURRENT YEAR LERE EXTENDED, I.E., SHIPPING NOT MORE THAN A CERTAIN PERCENTAGE OF THE ADDITIONAL QUOTA IN THE JULY-SEPTEMBER PERIOD. TSAO INDICATED HE MIGHT. BOTH SIDES AGREED TO RECESS FOR THE DAY AND CONSIDER PROBLEMS FURTHER.

6. SMITH OPENED NEXT DAY'S SESSION BY STATING THAT ALTHOUGH U.S. WOULD LIKE TO REACH MUTUALLY AGREEABLE SOLUTION TO HKG PROBLEMS, WE WERE UNABLE TO DO ANYTHING WITHOUT A QUID PRO QUO. HE ASKED IF HKG ABLE TO MAKE ANY RESPONSE TO U.S. NEED.

7. TSAO STATED THAT HE WISHED TO EXPLORE PROPOSALS OFF THE RECORD, GOING BEYOND HIS INSTRUCTIONS. HE STATED HE BELIEVED HKG MIGHT CONSIDER A SIX MONTH EXTENSION OF THE AGREEMENT, THROUGH MARCH 30, 1978.  
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IN EXCHANGE FOR THIS, HONG KONG UANTED AN EXTENSION OF CURRENT PROVISION THAT NOT MORE THAN 17 OR 18 OF THE ADDITIONAL 25 PERCENT QUOTA WOULD BE SHIPPED IN THE JULY-SEPTEMBER PERIOD PLUS REPEAT PLUS PROVISION THAT BEFORE EXTENSION OF AGREEMENT FINALIZED, HKG WOULD MEET WITH U.S. AGAIN TO DISCUSS A LIST OF IMPROVEMENTS IN THE CURRENT AGREEMENT WHICH IT WOULD LEAVE WITH U.S., WITHOUT PRIOR COMMITTMENT ON U.S. PART TO MAKE ANY CHANGE IN AGREEMENT. U.S. DELEGATION THEN REQUESTED RECESS TO EXAMINE HKG IDEAS AND TO PREPARE POSSIBLE COUNTER PROPOSAL.

8. DURING RECESS U.S. DELEGATION MULLED OVER IDEA OF MAKING A PROPOSAL THAT AFTERNOON CALLING FOR EXTENSION OF CURRENT AGREEMENT YEAR THROUGH DECEMBER, 1976, WITH PROVISION THAT NOT MORE THAN 123 PERCENT OF ORIGINAL LIMITS COULD BE SHIPPED THROUGH SEPTEMBER INCLUDING SWING AND CARRY FORWARD. THIS WOULD HAVE ALLOWED HKG AN ADDITIONAL 10 PERCENT QUOTA TO TIDE THEM OVER JULY-SEPTEMBER PERIOD IN SENSITIVE CATEGORIES.

THIRD AGREEMENT YEAR WOULD THEN BE JANUARY 1977 THROUGH DECEMBER, 1977, AND U.S. AND HONG KONG WOULD AGREE THAT FOR THE PERIOD JANUARY 1, - SEPTEMBER 30, 1978, THEY WOULD CONDUCT THEIR TEXTILE TRADE IN GENERAL CONFORMITY WITH THE TERMS OF THE CURRENT AGREEMENT, UNLESS IT WERE RENEGOTIATED TO CONFORM TO TERMS OF A NEW MFA OR UNTIL SOMETHING ELSE WAS NEGOTIATED IF THERE WERE NOT MFA RENEWAL. U.S. BELIEVED THIS PROPOSAL WOULD SATISFY OUR MINIMUM NEED FOR SIGNIFICANT EXTENSION OF AGREEMENT BEYOND MFA EXPIRY WHILE GIVING HONG KONG BOTH NEEDED ADDITIONAL SHIPPING ROOM FOR THIS SUMMER AND OPTICAL BENEFIT OF NOT FORMALLY EXTENDING AGREEMENT BEYOND MFA EXPIRATION.

9. WHEN U.S. TEAM CONSULTED WITH INDUSTRY ADVISORS, HOWEVER, ADVISORS WERE ADAMANTLY OPPOSED TO PROPOSAL. ALTHOUGH TEAM BELIEVED PROPOSAL HAD SOME - ALTHOUGH NOT GREAT - MERIT, GIVEN CURRENT ECONOMIC AND POLITICAL REALITIES IN U.S., WE FELT UNABLE TO GO AHEAD WITH PROPOSAL IN LIGHT OF SUCH STRONG OPPOSITION AND IN VIEW OF TSAO'S EARLIER STATEMENTS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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THAT EXTENSION OF BILATERAL MUCH BEYOND DECEMBER, 1977, WOULD BE DIFFICULT IF NOT IMPOSSIBLE.

10. AT FINAL SESSION, U.S. DEL EXPLAINED SITUATION TO TSAO, AND EXPRESSED REGRET THAT WE WERE UNABLE TO MAKE PROPOSAL. TSAO ACCEPTED EXPLANATION AND INDICATED THAT, WHILE THERE WERE NOT PERSONAL HARD FEELINGS, HE FELT HKG WOULD REACT UNFAVORABLY TO NEGATIVE OUTCOME OF TALKS.

11. HEAD U.S. DEL., AND CITA CHAIRMAN ALLAN POLANSKY MET WITH TSAO AND HERMANN PRIVATELY MORNING OF JUNE 23 AND COMPLETELY OFF THE RECORD OUTLINED PROPOSAL IN PARA 9 ABOVE WHICH WE HAD BEEN CONSIDERING MAKING. TSAO INDICATED THAT HKG MIGHT HAVE GREAT DIFFICULTY IN ANY EXTENSION OF BILATERAL BEYOND DECEMBER 1977, WITHOUT QUOTE IMPROVEMENTS UNQUOTE IN CURRENT AGREEMENT. FURTHER, TSAO COULD NOT REPEAT NOT EXCLUDE POSSIBILITY HKG WOULD DEMAND FURTHER ADDITIONAL SWEETENERS FOR GOING ALONG WITH MFA BEYOND THOSE WHICH MIGHT BE CALLED FOR IN A RENEWED MFA. THIS HIT UPON, OF COURSE, THE GUT ISSUE. HKG IS IN A BIND BECAUSE OF LIMITED QUOTA AVAILABILITY REMAINING THIS AGREEMENT YEAR. THE PRICE HKG WAS ORIGINALLY WILLING TO PAY FOR HELP (A SIMPLE THREE MONTH EXTENSION OF THE BILATERAL THROUGH DECEMBER 31, 1977) IS NOT ENOUGH FOR US. FURTHER, WHEN TWO SIDES EXPLORED OFF THE RECORD U.S. PROPOSAL, HKG INDICATED THAT NOT ONLY WOULD IT HAVE

GREAT DIFFICULTY IN AGREEING TO ANY SIGNIFICANT EXTENSION OF MFA BEYOND CURRENT MFA, BUT THERE MIGHT ALSO BE TWO ADDITIONAL PRICES FOR THE U.S. TO PAY, I.E., IMPROVEMENTS FOR EXTENDING THE BILATERAL BEYOND DECEMBER 31, 1977, AND SWEETENERS FOR AND AS A RESULT OF MFA EXTENSION. WITHOUT FURTHER CONSULTATION WITH OUR INDUSTRY ADVISORS AND MORE TIME TO ASSESS ALL THE IMPLICATIONS, THIS WAS SIMPLY TOO HIGH PRICED POKER FOR THE U.S. TO PLAY AT THIS TIME, PARTICULARLY AS HKG COULD NOT AND DID NOT STATE CURRENT AGREEMENT LEVELS WERE UNJUST OR UNGENEROUS.

12. SMITH AND POLANSKY AGREED TO CONTINUE EXAMINATION OF U.S. PROPOSAL AND TO LET TSAO KNOW, THROUGH HERMANN, LIMITED OFFICIAL USE  
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WHETHER THE U.S. WISHED TO FORMALLY PRESENT THE ABOVE OFF-THE-RECORD PROPOSAL, PERHAPS WITH FURTHER MODIFICATIONS AND/OR NUANCES. AT SAME TIME, U.S. DEL IMPRESSED UPON TSAO THAT USG MUST HAVE CONCRETE QUID PRO QUOS FROM HKG, AND NOT VAGUE ASSURANCES ABOUT POSSIBLE ABILITY OF HKG TO CONSIDER POSSIBLE EXTENSION OF BILATERAL.

13. DURING PAST WEEK U.S. TEXTILE OFFICIALS ATTEMPTED TO FORMULATE SOME PROPOSAL WHICH WOULD AT LEAST PARTIALLY SATISFY BOTH HKG AND U.S. NEEDS. HOWEVER, WE WERE UNABLE TO DEVELOP ANY THOUGHTS WHICH SEEMED LIKELY TO BE ACCEPTABLE TO HKG. IN MEETING WITH HERMANN ON JUNE 30 FOLLOWING CONSULTATIONS ON SEPARATE ISSUE OF CATEGORY 120, SMITH, POLANSKY AND FTD CHIEF ANGEVINE INFORMED HERMANN WE HAD CONCLUDED THAT WHILE WE MIGHT BE ABLE TO OFFER SOME TYPE OF TOKEN CONCESSION TO HONG KONG, WE WOULD NOT BE ABLE TO OFFER ANYTHING OF REAL SUBSTANCE. MOREOVER, WE COULD NOT EVEN OFFER A TOKEN CONCESSION EXCEPT AT A PRICE WHICH WE FELT HONG KONG WOULD FIND UNREASONABLE. WE WOULD EVEN THEN BE CONCERNED ABOUT THE IMPACT SUCH A MOVE WOULD HAVE ON DOMESTIC TOLERANCE OF LIBERAL ADMINISTRATION OF THE PROGRAM. HERMANN INDICATED THAT HONG KONG WAS INTERESTED IN TRADE VALUE RATHER THAN OPTICS, AND EXPRESSED OPINION THAT IN VIEW OF ALL CIRCUMSTANCES, THERE WAS NO POINT IN PURSUING MATTER FURTHER; INDEED, SUCH FURTHER PURSUIT MIGHT BE COUNTER-PRODUCTIVE.

14. IN PURELY BILATERAL TERMS, THERE WAS LITTLE REASON FOR THE U.S. TO ACCOMMODATE HKG'S WISHES, AND CERTAINLY NOT WITHOUT GETTING SOMETHING VALUABLE IN RETURN. BY HKG'S ADMISSION, THE QUOTAS THE U.S. NEGOTIATED ARE GENEROUS AND WE HAVE BEEN LIBERAL IN THE AGREEMENT'S IMPLEMENTATION. IF OTHER THAN BILATERAL TERMS, THERE MIGHT HAVE BEEN SOME REASON FOR TRYING TO MEET SOME OF HKG'S REQUEST, BUT STILL WE WOULD HAVE HAD TO GET SOMETHING CONCRETE IN RETURN. ABOUT THE ONLY CONCRETE THING WE ARE INTERESTED IN FROM

HONG KONG IS EXTENSION OF THE BILATERAL AND THEIR ACQUIESCENCE IN MFA RENEWAL. IF WE HAVE TO PAY A PRICE FOR THOSE TO ITEMS, WE WOULD RATHER PAY FOR IT WHEN THE BILL IS PRESENTED. IN THE CASE BEFORE, WE SAW NO REASON WHY WE SHOULD PAY FOR SOMETHING HKG WANTED.

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15. IN TYPICAL SKILLFUL HKG NEGOTIATING TACTIC, TSAO TRIED TO MAKE HIS REQUEST AS DISARMING AS POSSIBLE - ALL HKG WAS ASKING FOR WAS TO EXTEND THE CURRENT YEAR AND THUS BORROW FROM THE FUTURE TO EASE A CURRENT PROBLEM. BUT AS HE FINALLY CONCEDED, THE REAL REQUEST WAS TO SHIP 25 PERCENT MORE IN THE PERIOD OCTOBER 1975 THROUGH SEPTEMBER 1976 THAN THE AGREEMENT CALLED FOR, KNOWING FULL WELL HKG WOULD BE BACK AT US NEXT YEAR FOR HELP WHEN THE IMPACT OF THIS YEAR'S BORROWING BEGINS TO PINCH THEM. THIS IS WHAT THE U.S. DOMESTIC INDUSTRY SUSPECTS AND OBJECTED TO AND WHY WE FELT WE MUST GET SOMETHING REALLY CONCRETE FROM HKG IF AN ATTEMPT TO PERSUADE THE INDUSTRY THAT DESPITE ITS STRONG RESERVATIONS THE PRICE MIGHT BE RIGHT. SINCE TSAO WAS NOT WILLING TO PAY THE PRICE WE BELIEVED WAS RIGHT, THEN WE WERE UNABLE TO REACH AGREEMENT.

16. AT HERMANN'S INVITATION, SMITH PLANS TO MEET WITH DAVID JORDAN DURING LATTER'S VISIT TO WASHINGTON IN NEXT FEW DAYS TO REVIEW COURSE OF U.S. ACTION IN CONSIDERING HKG REQUEST.

17. DELEGATIONS ALSO EXCHANGED LETTERS TO INSTITUTE VISA SYSTEM; BUT TSAO INDICATED THAT SOME TECHNICAL PROBLEMS WILL HAVE TO BE RESOLVED BEFORE IT CAN BE IMPLEMENTED.

18. REPORT ON JUNE 30 MEETING WITH HERMANN TO DISCUSS CATEGORY 120 WILL BE SUBMITTED SEPT. KISSINGER

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